



**DEPARTMENT OF HEALTH & HUMAN SERVICES**

**Office Of Inspector General  
Office Of Audit Services**

**Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza  
New York, NY 10278**

**February 4, 2002**

**Our Reference: Common Identification No. A-02-99-02005**

**Hon. Yolanda Zayas Santana  
Secretary  
Department of the Family  
P.O. Box 11398  
San Juan, Puerto Rico 00910-1398**

**Dear Ms. Zayas:**

**Enclosed are two copies of the U.S. Department of Health and Human Services, Office of the Inspector General, Office of Audit Services' final report entitled "Review of Compensation For Personnel Services Claimed by the Administración De Familias Y Niños to the Head Start Program for the period March 1, 1998 to February 28, 1999." This review was requested by the Department of Health and Human Services, Administration for Children and Families. A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.**

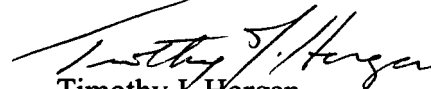
**Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.**

**In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)**

Page 2 – Hon. Yolanda Zayas Santana

To facilitate identification, please refer to Common Identification Number A-02-99-02005 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Timothy J. Horgan". The signature is fluid and cursive, with the first name "Timothy" and last name "Horgan" clearly distinguishable.

Timothy J. Horgan  
Regional Inspector General  
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Mary Ann Higgins  
Northeast Hub Director  
Department of Health and Human Services  
Administration for Children & Families  
26 Federal Plaza, Room 4114  
New York, New York 10278

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF COMPENSATION FOR  
PERSONNEL SERVICES CLAIMED  
BY  
THE ADMINISTRACION DE FAMILIAS  
Y NINOS TO THE HEAD START  
PROGRAM FOR THE PERIOD  
MARCH 1,1998 TO FEBRUARY 28,1999**



**JANET REHNQUIST  
INSPECTOR GENERAL**

**FEBRUARY 2002  
A-02-99-02005**

# ***Office of Inspector General***

<http://oig.hhs.gov/>

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# ***Notices***

**THIS REPORT IS AVAILABLE TO THE PUBLIC  
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In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.



## **EXECUTIVE SUMMARY**

### ***Background***

In Puerto Rico, the “Administración De Familias Y Niños” (ADFAN) is one of four administrations comprising the Department of the Family. This Department was created in July 1995 as part of a reorganization of the Department of Social Services. During fiscal year (FY) ended February 28, 1999, ADFAN administered eleven Federal and three State programs. The administrative services provided by ADFAN to all 14 programs included general services, human resources, finance, payroll, budget, legal, computer center support, contractual services for facilities, licensing and statistics.

One of the Federal programs administered by ADFAN is the Head Start program (HSP). The ADFAN is responsible for the programmatic administration of the HSP through 21 delegate agencies that operate HSPs across the island. Each of the HSPs provides comprehensive health educational, nutritional, social and other services primarily to economically disadvantage preschool children.

The Department of Health and Human Services, Administration for Children and Families (ACF) provides HSP funding for the Commonwealth of Puerto Rico. For FY ended February 28, 1999, ADFAN was awarded \$88.7 million under Grant No. 02-CH-483.33. The ADFAN reported expenditures of \$6,032,575 for the ADFAN administrative component and \$81,031,557 for the delegate agencies on the financial status report.

We received a request from ACF dated April 28, 1999 that we perform a financial audit of the administrative services provided by ADFAN to the HSP. This report covers our review of the total amount of \$3,647,775 that was claimed to the HSP as compensation for personnel services for the ADFAN administrative component. Our next report will address the remaining \$2,384,800 that was claimed to the HSP as other costs for the ADFAN administrative component.

### ***Objective***

The objective of this review was to determine the allowability, allocability and reasonableness of \$3,647,775 claimed by ADFAN to the HSP as compensation for personnel services for FY 1999.

### ***Summary of Findings***

Our review showed that ADFAN’s practice of charging support service employees arbitrarily to the HSP and all other programs it administered is not appropriate. Federal regulations require that these costs be allocated to benefiting programs. Consequently, we came up with a reasonable basis for allocating all ADFAN support service employees to the HSP and all other programs. The majority of the programs affected by the reallocation were administered by ACF. The reallocation resulted in a downward

adjustment of \$1,182,171 of compensated personnel services charged to the HSP program. See Appendix A for the effect of the reallocation on other Federal programs.

We also found that ADFAN improperly claimed \$39,409 for health insurance and \$75,694 for cost of living adjustments for support service employees to the HSP.

Lastly, we found that the remaining balance of compensated personnel services costs claimed for the ADFAN administrative component was allowable, allocable and reasonable.

### ***Recommendations***

We are recommending that ADFAN:

- Refund \$1,297,274 to the Federal Government for the HSP.
- Request a meeting with ACF officials to resolve the adjustments to other Federal programs resulting from our reallocation of support services for FY 1999.
- Prepare a plan for allocating the compensation for personnel services for support service employees to benefiting programs and submit it to the Department of Health and Human Services, Division of Cost Allocation for review and approval.
- Reallocate support services to benefiting programs for FY's 2000 and 2001.
- Discontinue claiming the employee's share of health insurance costs for ADFAN support service employees to the HSP.
- Discontinue claiming COLA's for ADFAN support service employees to the HSP.

### **AUDITEE COMMENTS**

In their response dated December 28, 2001 (see Appendix B), ADFAN officials stated that they have scheduled a meeting with ACF officials on January 2, 2002 to discuss the findings in our report and evaluate different alternatives for the reallocation of support services to resolve the adjustment to other programs and also to discuss a course of action related to our recommended adjustment of \$1,182,171. It is their belief that as a result of this meeting, ADFAN and the Department of the Family could submit a corrective action plan to reallocate the support services for FY 1998/1999 and subsequent years.

In addition, ADFAN officials concurred with our recommendation to prepare a plan for allocating the compensation for personnel services for support service employees to benefiting programs and submit it to the Department of Health and Human Services, Division of Cost Allocation for review and approval. In their response, they state that a

FY 1998/1999 cost allocation plan was developed by an outside firm and submitted to DCA for review. In April 2001, DCA issued certain recommendations concerning the plan, which affected the acceptance and implementation of the plan. These recommendations have been addressed and the plan will be resubmitted. Also, ADFAN stated that on December 27, 2001, an evaluation committee was established to select a firm to prepare a new cost allocation plan for FY 2000-2001. This new plan will result in the reorganization of the HSP as well as other Federal and state programs in accordance with financial operational, administrative and programmatic needs of the Administration.

Lastly, ADFAN officials stated they have stopped claiming the employee's share of health insurance costs for support service positions to the HSP since July 2000 and the claiming of COLA's for support service positions to the HSP has been discontinued since March 2000. The resolution of our recommended adjustments for health insurance (\$39,409) and COLA (\$75,694) will be discussed with ACF officials at the scheduled January 2, 2002 meeting.

## **OIG RESPONSE**

We contacted ACF officials and were advised that the scheduled January 2, 2002 meeting did not occur. The meeting has been rescheduled for February 1, 2002.

We are pleased that ADFAN officials have agreed that a cost allocation plan must be developed and implemented for the proper allocation of compensation for personnel services of support service employees to all benefiting programs. Office of management and Budget Circular A-87, Attachment D, requires a public assistance agency to develop, document and implement a public assistance cost allocation plan in accordance with Federal regulations at Subpart E of 45 CFR Part 95. During our review, we were aware that an outside firm under contract with ADFAN was developing a cost allocation plan. We contacted DCA officials and determined that ADFAN did submit a cost allocation plan based on FY1998/1999 base costs to DCA for approval on July 10, 2000. The DCA met with ADFAN officials and reviewed the plan. The plan was rejected by DCA because it did not meet Federal regulations as specified in Subpart E of 45 CFR Part 95. In their rejection letter dated August 10, 2000, the DCA provided detailed instructions on what would be needed for them to approve the plan. On January 19, 2001, the FY1998/1999 plan was resubmitted to DCA. Again, DCA met with ADFAN officials to review the plan. This plan was also rejected and in a letter dated April 9, 2001, DCA stated that the plan still did not meet the requirements of Subpart E of 45 CFR Part 95. As of the date of this report, the plan has not been resubmitted to DCA.

Regarding the new cost allocation plan based on FY 2000/20001 base year, we agree that the plan should follow DCA recommendations.

Finally, we are also pleased that ADFAN has discontinued claiming health insurance and COLA's for support service positions to the HSP.



## **INTRODUCTION**

### ***Background***

In Puerto Rico, the “Administración De Familias y Niños” (ADFAN) is one of four administrations comprising the Department of the Family. This Department was created in July 1995 as part of a reorganization of the Department of Social Services. During fiscal year (FY) ended February 28, 1999, ADFAN administered the following eleven Federal and three State programs:

### **Federal Programs**

### **Federal Entity**

|  |  |
|--|--|
| 1. Title XX – Social Services Block Grant      | Dept. of Health and Human Services       |
| 2. Senior Community Service Employment Program | Dept. of Labor                           |
| 3. Retired and Senior Volunteer Program        | Corp. for National and Community Service |
| 4. Child Welfare Services                      | Dept. of Health and Human Services       |
| 5. Family Preservation and Support Services    | Dept. of Health and Human Services       |
| 6. Child Care and Development Block Grant      | Dept. of Health and Human Services       |
| 7. Community Services Block Grant              | Dept. of Health and Human Services       |
| 8. Head Start                                  | Dept. of Health and Human Services       |
| 9. TANF – Title XX                             | Dept. of Health and Human Services       |
| 10. Title IV-D “Encuentros”                    | Dept. of Health and Human Services       |
| 11. Title I                                    | Dept. of Education                       |

### **State Programs**

1. Consortiums – State Employees Children Day Care Centers
2. FUSA (911) (Social Forces in Action)
3. Services to Families with Children – Law 160

The administrative services provided by ADFAN to all 14 programs included general services, human resources, finance, payroll, budget, legal, computer center support, contractual services for facilities, licensing and statistics.

One of the Federal programs administered by ADFAN is the Head Start program (HSP). The ADFAN is responsible for the programmatic administration of the program through 21 delegate agencies that operate HSPs across the island. Each of the HSPs provides comprehensive health educational, nutritional, social and other services primarily to economically disadvantage preschool children.

The Department of Health and Human Services, Administration for Children and Families (ACF) provides HSP funding for the Commonwealth of Puerto Rico. For FY 1999, ADFAN was awarded \$88.7 million under Grant No. 02-CH-483.33. The ADFAN reported expenditures of \$6,032,575 for the ADFAN administrative component and \$81,031,557 for the delegate agencies on the financial status report.

We received a request from ACF dated April 28, 1999 that we perform a financial audit of the administrative services provided by ADFAN to the HSP. This report covers our review of the total amount of \$3,647,775 that was claimed to the HSP as compensation for personnel services for the ADFAN administrative component. Our next report will address the remaining \$2,384,800 that was claimed to the HSP as other costs for the ADFAN administrative component.

### ***Objective, Scope and Methodology***

The objective of this review was to determine the allowability, allocability and reasonableness of \$3,647,775 claimed by ADFAN to the HSP as compensation for personnel services for FY 1999.

To accomplish our objective, we:

- Discussed with ADFAN officials their method for charging compensation for personnel services for support service employees to all 14 programs administered by ADFAN during FY 1999.
- Obtained from ADFAN listings of compensated personnel services costs by employee charged to all 14 programs.
- Identified ADFAN employees that provided support services to all ADFAN administered programs.
- Developed a methodology to allocate compensation for personnel services costs for support service employees to benefiting programs based on total direct salaries and related fringe benefits. We reallocated the costs.
- Compared our reallocation of costs to costs claimed by program.
- Tested the listing of HSP employees to determine whether personnel services costs claimed were proper.
- Reviewed health insurance and cost of living adjustments claimed to the HSP.

Our review was performed in accordance with generally accepted standards for governmental auditing. The allowability, allocability and reasonableness of compensated personnel services were determined through application of the cost principles contained in Office of Management and Budget (OMB) Circular No. A-87, "Cost Principles for State, Local and Indian Tribal Governments".

We obtained information on internal controls related to our audit objective. For ADFAN employees that were charged to the HSP, we obtained information and tested ADFAN's appointment process and time and attendance system. We also obtained information related to ADFAN's method for charging compensation for personnel services for support service employees.

Our fieldwork was performed at the central office of ADFAN located in San Juan, Puerto Rico from June 1999 to July 2000. We performed additional fieldwork during the period January 2001 to April 2001.

## **FINDINGS AND RECOMMENDATIONS**

Our review showed that ADFAN's practice of charging support service employees arbitrarily to the HSP and all other programs it administered is not appropriate. Federal regulations require that these costs be allocated to benefiting programs. Consequently, we came up with a reasonable basis for allocating all ADFAN support service employees to the HSP and all other programs. The majority of the programs affected by the reallocation were administered by ACF. The reallocation resulted in a downward adjustment of \$1,182,171 of compensated personnel services charged to the HSP program.

We also found that ADFAN improperly claimed \$39,409 for health insurance and \$75,694 for cost of living adjustments for support service employees to the HSP.

Lastly, we found that the remaining balance of compensated personnel services costs claimed for the ADFAN administrative component was allowable, allocable and reasonable.

### **Allocation of Support Services**

For FY 1999, ADFAN employed 282 employees that provided support services to all 14 programs it administered. Support services included general services, human resources, finance, payroll, budget, legal, computer center support, contractual services for facilities, licensing and statistics. We found that ADFAN charged all 282 employees directly to six Federal programs that were administered by ACF:

| <u># Of ADFAN Employees</u> | <u>Program</u>                           |
|-----------------------------|--|
| 24                          | Title XX – Social Services Block Grant   |
| 116                         | Child Welfare Services                   |
| 1                           | Family Preservation and Support Services |
| 85                          | Child Care and Development Block Grant   |
| 6                           | Community Services Block Grant           |
| <u>50</u>                   | Head Start                               |
| <u>282</u>                  |  |

We met with ADFAN officials to discuss their method for charging support positions to programs accounts. We were advised that compensated personnel services of administrative support positions were charged directly to program accounts because no funds were budgeted to cover administrative costs when ADFAN was created in 1995. This practice has continued through to the current period. As a result, ADFAN would arbitrarily charge support positions directly to programs that had funds available to cover the costs.

We found that ADFAN charged the HSP program compensated personnel services of \$3,647,775 for 126 people for FY 1999. Of the 126 people, 76 were ADFAN employees that worked directly for the HSP and 50 were ADFAN support employees. For the 76 ADFAN employees that worked directly for the HSP, we found adequate support for the salaries that were charged directly to the HSP. However, for the 50 ADFAN support service employees that were charged to the HSP, we requested that ADFAN provide support for the time and effort provided by them. We were advised that such support was not available because the 50 support positions were charged not on the basis of benefits provided but because HSP funding was available to cover these positions.

This practice of charging support positions arbitrarily to program accounts is contrary to Federal regulation. The OMB Circular No. A-87, section C.2 and C.3.a. states that for a cost to be allowable it must be; reasonable in its nature and amount, it must be allocable to a particular cost objective if the goods or services are chargeable or assignable to that cost objective according to the relative benefits received.

In order to properly allocate support positions to benefiting programs, an allocation methodology was needed. Since ADFAN had not developed one, we decided to allocate support positions based on the salaries and related fringe benefits of employees that worked directly for the programs. We presented this methodology to ADFAN officials as a reasonable approach to handling this issue. They agreed that this approach was fair and reasonable.

To complete this reallocation of support positions, we placed the compensated personnel services costs of all 282 ADFAN employees in a pool and reallocated the costs to benefiting programs based upon our agreed to methodology. Our findings for health insurance and COLA were deducted prior to the reallocation to eliminate duplication in our recommended

financial adjustments. The reallocation resulted in increasing and decreasing adjustments to 11 of the 14 programs administered by ADFAN (see Appendix A). We found that the majority of the Federal programs affected by the reallocation were ACF programs. We discussed this with ACF officials and were advised that they would handle the resolution of this report. Our reallocation resulted in a downward adjustment of \$1,182,171 to the HSP.

### ***Recommendations***

We recommend that ADFAN:

- Refund \$1,182,171 to the Federal government for the HSP.
- Request a meeting with ACF officials to resolve the adjustments to other Federal programs resulting from our reallocation of support services for FY 1999.
- Prepare a plan for allocating the compensation for personnel services for support service employees to benefiting programs and submit it to the Department of Health and Human Services, Division of Cost Allocation for review and approval.
- Reallocate support services to benefiting programs for FY's 2000 and 2001.

### **Health Insurance**

The May 25, 1994 Circular Letter Number 1300-25-94 issued by the Commonwealth of Puerto Rico authorizes the Puerto Rico Treasury Department to contract and administer the medical-hospitalization plans for the government functionaries, employees and retirees. The government contribution (employer's share) of the Central Government for medical and hospitalization services provided up to \$40.00 per month for each insured.

According to OMB Circular No. A-87, Attachment B, 11.d. (5), the cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation; pension plan costs; and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributed to individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.

During FY 1999, ADFAN claimed \$127,065 for health insurance costs, which covered 124 employees that were charged to the HSP. Of the 124 ADFAN employees, 76 worked directly for the HSP and 48 were support service employees (1). The cost claimed included

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(1) During FY 1999, ADFAN claimed compensation for personnel services for 50 support service employees to the HSP. Also during this period, ADFAN claimed health insurance for 48 of the 50 support service employees.

the employer's share of \$40 per month per employee plus the employee's share up to \$110.00 per month per employee. We learned through discussions with ADFAN officials that ACF had approved funding up to \$110.00 per month per HSP employee to help cover the employee's share of health insurance cost during FY 1999. We contacted ACF officials and were advised that funding of the employee's share of health insurance was approved only for employees that worked directly for the HSP.

We found that ADFAN improperly charged the employee's share of health insurance costs for 48 support service employees to the HSP during FY 1999. As stated above under our allocation finding, support service employees provide services to more than one program and should have been allocated to benefiting programs instead of charged arbitrarily to Federal programs based on funding needs. For this group of employees, the only health insurance cost granted under established written policy by the Commonwealth of Puerto Rico was the employer's share of \$40.00. Consequently, this fringe benefit cost would follow the employee and be allocated to benefiting programs. Our review showed that ADFAN claimed the employee's share of health insurance for 48 of 282 support service employees only on the HSP. This is contrary to OMB Circular No. A-87 cost principles because this fringe benefit cost was not granted to all ADFAN support employees and was not allocated to all benefiting programs. Consequently, the inconsistent treatment of this fringe benefit cost resulted in an overcharge to the HSP of \$39,409.

### ***Recommendations***

We recommend that ADFAN:

- Refund \$39,409 to the Federal government for the HSP.
- Discontinue claiming the employee's share of health insurance costs for support service employees to the HSP.

### **Cost-of-Living Adjustment**

During FY 1999, ADFAN claimed \$164,521 for a cost of living adjustment (COLA) for 124 employees that were charged to the HSP. Of the 124 ADFAN employees, 76 worked directly for the HSP and 48 were support service employees (2). The Head Start Act provides in Sec. 640(a)(3)(c)(i)(I) for the payment of COLA to staff that obtains additional training or education related to their responsibilities as employees of a HSP. The ACF approved funds in FY1999 for a COLA increase for all staff of the Head Start and Early Head Start programs of at least 1.5 percent.

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(2) During FY 1999, ADFAN claimed compensation for personnel services for 50 support service employees to the HSP. Also during this period, ADFAN claimed COLA's for 48 of the 50 support service employees.

The ADFAN has traditionally claimed a COLA for all employees that were paid with HSP funds. We discussed this issue with ACF officials and were advised that the COLA was approved only for employees that worked directly for the HSP.

According to OMB Circular No. A-87, Attachment C, i.e., to be allowable under Federal awards, costs must be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

We found that ADFAN improperly claimed COLA for 48 support services employees to the HSP during FY 1999. As stated above under our allocation finding, support service employees provide services to more than one program and should have been allocated to benefiting programs instead of charged arbitrarily to Federal programs based on funding needs. For this group of employees, the Commonwealth of Puerto Rico did not provide a COLA during FY 1999. Instead, our review showed that ADFAN claimed a COLA for 48 of 282 support service employees only on the HSP. This is contrary to OMB Circular No. A-87 cost principles because a COLA was not granted to all ADFAN support employees and was not allocated to all benefiting programs. Consequently, the inconsistent treatment of this cost resulted in an overcharge to the HSP of \$75,694.

### ***Recommendations***

We recommend that ADFAN:

- Refund \$75,694 to the Federal government for the HSP.
- Discontinue claiming COLA's for support service employees to the HSP.

### **AUDITEE COMMENTS**

In their response dated December 28, 2001 (see Appendix B), ADFAN officials stated that they have scheduled a meeting with ACF officials on January 2, 2002 to discuss the findings in our report and evaluate different alternatives for the reallocation of support services to resolve the adjustment to other programs and also to discuss a course of action related to our recommended adjustment of \$1,182,171. It is their belief that as a result of this meeting, ADFAN and the Department of the Family could submit a corrective action plan to reallocate the support services for FY 1998/1999 and subsequent years.

In addition, ADFAN officials concurred with our recommendation to prepare a plan for allocating the compensation for personnel services for support service employees to benefiting programs and submit it to the Department of Health and Human Services, Division of Cost Allocation for review and approval. In their response, they state that a FY 1998/1999 cost allocation plan was developed by an outside firm and submitted to DCA for review. In April 2001, DCA issued certain recommendations concerning the plan, which

affected the acceptance and implementation of the plan. These recommendations have been addressed and the plan will be resubmitted. Also, ADFAN stated that on December 27, 2001, an evaluation committee was established to select a firm to prepare a new cost allocation plan for FY 2000-2001. This new plan will result in the reorganization of the HSP as well as other Federal and state programs in accordance with financial operational, administrative and programmatic needs of the Administration.

Lastly, ADFAN officials stated they have stopped claiming the employee's share of health insurance costs for support service positions to the HSP since July 2000 and the claiming of COLA's for support service positions to the HSP has been discontinued since March 2000. The resolution of our recommended adjustments for health insurance (\$39,409) and COLA (\$75,694) will be discussed with ACF officials at the scheduled January 2, 2002 meeting.

## **OIG RESPONSE**

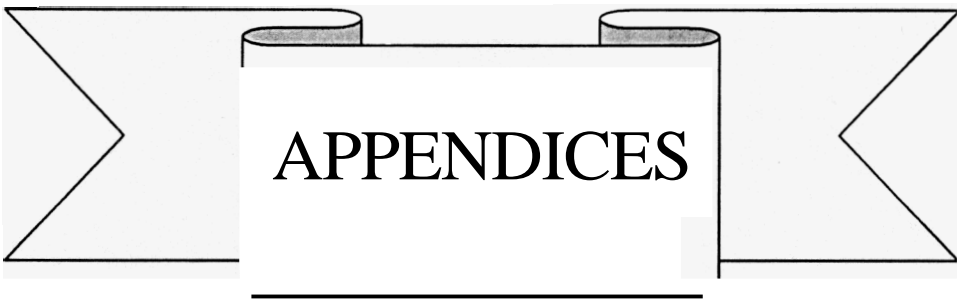
We contacted ACF officials and were advised that the scheduled January 2, 2002 meeting did not occur. The meeting has been rescheduled for February 1, 2002.

We are pleased that ADFAN officials have agreed that a cost allocation plan must be developed and implemented for the proper allocation of compensation for personnel services of support service employees to all benefiting programs. Office of management and Budget Circular A-87, Attachment D, requires a public assistance agency to develop, document and implement a public assistance cost allocation plan in accordance with Federal regulations at Subpart E of 45 CFR Part 95. During our review, we were aware that an outside firm under contract with ADFAN was developing a cost allocation plan. We contacted DCA officials and determined that ADFAN did submit a cost allocation plan based on FY1998/1999 base costs to DCA for approval on July 10, 2000. The DCA met with ADFAN officials and reviewed the plan. The plan was rejected by DCA because it did not meet Federal regulations as specified in Subpart E of 45 CFR Part 95. In their rejection letter dated August 10, 2000, the DCA provided detailed instructions on what would be needed for them to approve the plan. On January 19, 2001, the FY1998/1999 plan was resubmitted to DCA. Again, DCA met with ADFAN officials to review the revised plan. This plan was also rejected and in a letter dated April 9, 2001, DCA stated that the plan still did not meet the requirements of Subpart E of 45 CFR Part 95. As of the date of this report, the plan has not been resubmitted to DCA.

Regarding the new cost allocation plan based on FY 2000/20001 base year, we agree that the plan should follow DCA recommendations.

Finally, we are also pleased that ADFAN has discontinued claiming health insurance and COLA's for support service positions to the HSP.





|        | Puerto Rico Department of Family   |   |                     |                    |                       |                       |                    | Appendix A          |
|--------|--|---|---------------------|--------------------|-----------------------|-----------------------|--------------------|---------------------|
|        | Administration of Families and Children - Head Start Program                   |   |                     |                    |                       |                       |                    |                     |
|        | Allocation of Compensation Personnel Services                                  |   |                     |                    |                       |                       |                    |                     |
|        | Fiscal Year Ended February 28, 1999  |   |                     |                    |                       |                       |                    |                     |
|        |  | A   | B                   | C                  | D                     | E                     | F                  | F - A               |
|        |  |   |                     | (B ÷ \$44,819,266) |                       | (C x \$4,902,291)     | (B + E)            | Increase (Decrease) |
|        |  | Total Compensation  |                     |                    |                       | Indirect Compensation | Total Compensation | Compensation        |
|        |  | Personnel Services  | Direct Compensation |                    | Indirect Compensation | Personnel Services    | Personnel Services | Personnel Services  |
|        | Program  | Before Allocation   | Personnel Services  | Rate               | Personnel Services    | After Allocaton       | After Allocation   | After Allocation    |
| 93.667 | Title XX - Social Services Block Grant 1)                                      |   |                     |                    |                       |                       |                    |                     |
|        | Services to Families With Children   | \$5,019,261   | \$4,759,798         | 10.62%             | \$259,463             | \$520,623             | \$5,280,421        | \$261,160           |
|        | Adult Social Services - Federal  | 1,954,640   | 1,919,318           | 4.28%              | 35,322                | 209,936               | 2,129,254          | 174,614             |
|        | Services to Adults - State   | 2,711,757   | 2,650,456           | 5.91%              | 61,301                | 289,907               | 2,940,363          | 228,606             |
|        | Bureau of Residence Facilities   | 1,172,864   | 1,172,171           | 2.62%              | 693                   | 128,210               | 1,300,381          | 127,517             |
|        |  | 10,858,522  | 10,501,743          | 23.43%             | 356,779               | 1,148,676             | 11,650,419         | 791,897             |
| 17.235 | Senior Community Service Employment Program                                    | 1,065,185   | 1,065,158           | 2.38%              | 27                    | 116,508               | 1,181,666          | 116,481             |
|        | (SCEP) (Older Worker Program) (Formerly ROW)                                   |   |                     |                    |                       |                       |                    |                     |
| 94.002 | Retired and Senior Volunteer Program (RSVP)                                    | 82,501  | 82,470              | 0.18%              | 31                    | 9,020                 | 91,490             | 8,989               |
| 93.645 | Child Welfare Services - State Grants 1)                                       |   |                     |                    |                       |                       |                    |                     |
|        | Title IV - B - Bureau of Residence Facilities - Federal                        | 45,896  | 45,841              | 0.10%              | 55                    | 5,015                 | 50,856             | 4,960               |
|        | Title IV - B - Bureau of Residence Facilities - State                          | 3,233,050   | 3,043,398           | 6.79%              | 189,652               | 332,885               | 3,376,283          | 143,233             |
|        | Title IV - B - Services to Families With Children - Federal                    | 3,465,360   | 3,304,244           | 7.37%              | 161,116               | 361,416               | 3,665,660          | 200,300             |
|        | Title IV - B - Services to Families With Children - State                      | 20,353,469  | 18,827,296          | 42.01%             | 1,526,173             | 2,059,310             | 20,886,606         | 533,137             |
|        |  | 27,097,775  | 25,220,779          | 56.27%             | 1,876,996             | 2,758,626             | 27,979,405         | 881,630             |
| 93.556 | Family Preservation and Support Services 1)                                    | 495,104   | 490,712             | 1.10%              | 4,392                 | 53,675                | 544,387            | 49,283              |
| 93.575 | Child Care and Development Block Grant 1)                                      | 3,600,643   | 2,402,313           | 5.36%              | 1,198,330             | 262,763               | 2,665,076          | (935,567)           |
| 93.569 | Community Services Block Grant (CSBG) 1)                                       | 465,983   | 414,159             | 0.92%              | 51,824                | 45,302                | 459,461            | (6,522)             |
| 93.600 | Head Start 1), 2)  | 3,532,672   | 2,118,760           | 4.73%              | 1,413,912             | 231,741               | 2,350,501          | (1,182,171)         |
| 93.560 | TANF-Title XX (Through P.R. Family Social Economic Development Administration) | 0   | 0                   | 0.00%              | 0                     | 0                     | 0                  | 0                   |
| 93.597 | Title IV-D (Through P.R. Minors Support Administration)                        | 0   | 0                   | 0.00%              | 0                     | 0                     | 0                  | 0                   |
| 84.010 | Title I (Through P.R. Department of Education)                                 | 0   | 0                   | 0.00%              | 0                     | 0                     | 0                  | 0                   |
| State  | Consortiums - (State Employees Children Day Care Centers)                      | 757,906   | 757,906             | 1.69%              | 0                     | 82,898                | 840,804            | 82,898              |
| State  | FUSA (911) (United Social Forces in Action)                                    | 1,723,832   | 1,723,832           | 3.85%              | 0                     | 188,552               | 1,912,384          | 188,552             |
| State  | Services to Families With Children - Law 160                                   | 41,434  | 41,434              | 0.09%              | 0                     | 4,530                 | 45,964             | 4,530               |
|        |  | \$49,721,557  | \$44,819,266        | 100.00%            | \$4,902,291           | \$4,902,291           | \$49,721,557       | \$0                 |
|        |  | 1) Programs under the Administration for Children and Families (ACF) that were affected by the allocation of costs. |                     |                    |                       |                       |                    |                     |
|        |  | 2) Total compensation services of \$3,647,775 less \$39,409 medical plan, and \$75,694 COLA.                        |                     |                    |                       |                       |                    |                     |



**ADFAN**

**FAMILY DEPARTMENT**  
**ADMINISTRATION FOR FAMILIES AND CHILDREN**

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December 28, 2001

Mr. Timothy V. Horgan  
Regional Inspector General for Audit Services  
Department of Health & Human Services  
A-02-99-02005

Dear Mr. Horgan:

We received the revised draft report of the Review of Compensation for Personnel of Services Claimed by the Families & Children Administration, and consequently, we have presented the comments on the findings of the Audit Report A-02-99-02005 (see attachment 1).

We would appreciate the opportunity to discuss with you our position regarding the findings as well as our responsibility towards the Federal Government.

ADFAN, as part of the Commonwealth of Puerto Rico, has the obligation to fulfill the needs of the children and families of Puerto Rico. In response to the programmatic commitment of the Commonwealth of Puerto Rico, and dedicated to the holistic welfare and development of Puerto Rican children and families, ADFAN strives at the development of an all-encompassing work plan that includes multidimensional preventive measures addressing the children of Puerto Rico.

As part of our multidimensional focus to prevent child abuse, ADFAN has developed several strategies through educational components and liaisons with the community.

Because education is the main strategic area of ADFAN's public policy, we focus on enhancing those programs such as Head Start, that address our children's needs. It is through education that we fight poverty; where education is the basis for the existence of the Head Start Program. Said Program is one of the strengths of the component of holistic development of children at an early age. Our goals are geared by a proactive focus to achieve the social welfare of our children through preventive holistic development during early childhood.

Our second strategy stems from our alliances with the communities, which comprise a transcendent component of our Head Start Program. Through said Program we address our efforts to transforming communities, reaching other families, and multiplying the results already experienced in our Head Start Program.

In our endeavor to carry out activities that address the holistic development of children, ADFAN proposes to enhance this area through the Head Start Program, which as stated above, is one of our strengths in the area of education at an early age. Based on this approach of enhancement to prevent child abuse and neglect in Puerto Rico, we propose to: enhance the services of extended child care; create multidisciplinary teams to implement holistic educational programs for the prevention of violence; coordinate community group discussions on family violence and child abuse; reinforce support services to families of domestic violence and child abuse; elaborate a curriculum for parent training aimed at reducing abuse and developing skills in dealing with emotions and conflicts; and enhance the development of public policy on prevention and integral formation and development of children, parents and citizens.

We intend to bolster our efforts to develop these activities, reason why returning the amount claimed by the auditors would affect our plans and programmatic commitments.

Based on the arguments mentioned above, we request a meeting with the corresponding personnel of ACF to discuss these very important issues. We will be in contact to coordinate said meeting.

Cordially,

  
Idalia Colón Rondón, MSW  
Administrator



**FAMILY DEPARTMENT**  
**ADMINISTRATION FOR FAMILIES AND CHILDREN**

**OFFICE OF INTERNAL AUDIT**

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Head Start Programs

**Comments on Revised Draft Report (A-02-99-02005), November 20, 2001**  
**Federal Fiscal Year 03/01/1998 - 02/28/1999**  
**Head Start Program**  
**Compensations:**

**Executive Summary:**

**Total of Reimbursement Per Findings:**

|                                   |                |
|-----------------------------------|----------------|
| Allocations of Support Services   | \$1,182,171.00 |
| Voided Payroll Checks 98-99       | - 0 -          |
| Health Insurance                  |                |
| 50 Employees Support Units        | \$39,409.00    |
| Cost-of-Living Adjustments (COLA) |                |
| 50 Employees Support Units        | \$75,694.00    |
| Total                             | \$1,297,274.00 |

**I. Finding #1 - Allocation of Supportive Services**

**Recommendations presented by DHHS Auditors:**

- A. Refund \$1,182,171 to the Federal Government for the HSP.
- B. Request of meeting with ACF officials to resolve the adjustments to other federal programs resulting from our reallocation of support services for FY 1999.
- C. Prepare a plan for allocating the compensation for personnel services for support service employees to benefiting programs, and submit said plan to

the Department of Health and Human Services, Division of Cost Allocation for review and approval.

D. Reallocate support services to benefiting programs for FY'S 2000-2001.

Comments on Recommendations - Finding #1

ADFAN Administrator and Head Start Programs Officials shall have a meeting with ACF Officials on January 2, 2002 to discuss the findings and evaluate different alternatives for the reallocation of supportive services to resolve the adjustment to other programs requested by auditors.

As a result of this meeting, ADFAN and the Department of the Family could submit a corrective action plan to reallocate the support services for fiscal year 1998-99 and subsequent years. ADFAN, will discuss with ACF Officials a course of action related to the refund of \$1,182,171.00 suggested by DHHS Auditors.

We concur with the recommendation of the Federal Auditors regarding that ADFAN must establish and implement a Cost Allocation Plan. The Auditors have required that said plan include the way in which the expenditures should be adjudicated and accounted for each program, specially the expenditures of Head Start (Paid Salaries and Fringe Benefits).

In Government Transition Process (January 2001), a Cost Allocation Plan for the case year 1998-99 was brought to the attention of the current administrator. The Plan was produced by Management & Computer Associates, Inc., and was submitted to and evaluated by the Cost Allocation Division of DHHS. In April 2001, said Division issued several recommendations concerning the Plan, which affected the acceptance and implementation of said plan. Recently, the firm responded to the recommendations and completed the plan, which we will be delivering to the ACF officials as soon as possible. ADFAN decided to start the process of producing a new Cost Allocation Plan for FY 2000-2001 for all ADFAN programs, including the regional and local offices.

On December 27, 2001, ADFAN Evaluation Committee was established to select a firm to produce a new Cost Allocation Plan for FY 2000-2001. During the first semester of 2002 the selected firm will begin the Cost Allocation Plan, following previous recommendations from Mr. Vincent M. Bamundo, Director of Division of Cost Allocation.

As a result of this new plan, ADFAN will reorganize the Head Start Program as will with other federal and state programs in accordance with financial operational, administrative, and programmatic needs of the Administration.

II. Finding #2 - Voided Payroll Checks

Finding #2 was eliminated from the revised version of November 20, 2001, Draft Report (A-02-99-02005).

III. Findings #3 and #4 - Health Insurance & Cost-of-Living Adjustment (COLA)

Recommendations presented by Health & Human Services Auditor:

Health Insurance

1. Refund \$39,409 to the Federal Government for the HSP.

2. Discontinue claiming the employee's share of health insurance cost for support services employees to the HSP.

Recommendations presented by Health & Human Services Auditor (cont.)

B. Cost Of Living Adjustment (COLA)

1. Refund \$75,694 to the Federal Government for the HSP.
2. Discontinue claiming COLA's for support services employees to the HSP.

Comments on Recommendations for findings #3 and #4

On September 1999, ADFAN officials were advised by ACF officials on the definition of Head Start Employee. The concept of a Head Start Employee was clarified as one who works 100% of his/her time in the Head Start Program and has been supervised directly by a Head Start Supervisor.

The Health Insurance benefits payments for support services employees have been discontinued since July 2000. Also, the Cost of Living Adjustment (COLA) benefits have been discontinued since March 2000. As part of our next meeting, ADFAN Administrator and Head Start Official will discuss with ACF Official the recommendations of the Federal Auditors related to Health Insurance & COLA Benefits.